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C O N F I D E N T I A L SECTION 01 OF 02 CHISINAU 000427

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TAGS: [ECON](#) [PGOV](#) [PBTS](#) [ENRG](#) [MD](#)
SUBJECT: MOLDOVA: GAZPROM INCREASES GAS PRICES

11. (C) SUMMARY: On April 15, the Moldovan national energy regulator (ANRE) confirmed that Gazprom had increased the price of natural gas supplied to Moldova from USD 191 per thousand cubic meters (tcm) to USD 213 per tcm, an 11% increase. ANRE also noted that consumer tariffs would not increase until the third quarter of 2008. According to MoldovaGaz, the new price was calculated according to the agreement signed with Gazprom in December 2006, which gradually increases prices to European levels with quarterly adjustments based on the price of oil. For 2008, Moldova will pay 75% of Gazprom's price for European customers, increasing to 80% in 2009, 90% in 2010, and reaching parity in 2011. MoldovaGaz and Gazprom continue to struggle with Transnistria's debts and non-payment of "taken" gas. END SUMMARY.

PRICE INCREASES ACCORDING TO THE GAZPROM FORMULA

12. (C) On April 10, MoldovaGaz president Ghenadie Abashkin (protect) told econoff privately that gas prices would increase per the formula in the MoldovaGaz-Gazprom agreement. Asked about the impact on consumers, Abashkin said there would be no immediate adjustment and predicted a minimal price increase in the third quarter of 2008 for consumers. On April 15, ANRE's General Director confirmed that the agency would not increase consumer tariffs, noting that MoldovaGaz could cover the additional costs for supplies of gas from its financial reserves accrued from the appreciation of the Moldovan Lei (MDL). ANRE noted that current tariffs were calculated at an exchange rate of MDL 12.22 per USD; however, the average official exchange rate for the first quarter of 2008 was MDL 11.11 per USD. Abashkin had also mentioned the issue of currency appreciation, but noted that ANRE, per its usual practice, would also use MoldovaGaz's 2007 profits to limit future consumer tariff increases. (NOTE: ANRE subsidizes tariffs by limiting the profit component for MoldovaGaz recognized in the consumer tariff. END NOTE.)

RELATIONS WITH TRANSNISTRIA

13. (C) On Gazprom's negotiations with Transnistria, Abashkin noted that discussions continued on the evaluation of MoldovaGaz assets, including those in Transnistria. However, access to Transnistria remained a problem. On the Transnistrian gas debt issue, he said there had been several visits by Gazprom officials to Tiraspol, but no movement on a resolution. Transnistria's debts to Gazprom are estimated at USD 1.677 billion, including USD 200 million accumulated in 12007. Abashkin noted that Gazprom believes the Transnistrian Supreme Soviet (parliament) should adopt legislation assuming Transnistria's debts to Gazprom as Transnistrian "state" debt; however, the Supreme Soviet has refused to act. Abashkin said debts continued to mount because Transnistria

was not paying the increased (January 1) price for gas and refused to transfer payments to MoldovaGaz even though it collected consumer tariffs in Transnistria.

RE-VALUING MOLDOVAGAZ ASSETS

¶4. (SBU) On April 15, local think-tank IDIS Viitorul presented a study of MoldovaGaz's assets, concluding that Gazprom's share of the company is unjustifiably high because of the improper asset valuation made when establishing the company in October 1998. In a politically-motivated move, Gazprom acquired shares of MoldovaGaz as a swap for debt owed by Moldova for supplies of natural gas. IDIS experts also claimed that since its founding, Gazprom failed to fulfill investment commitments to develop Moldova's gas distribution network, forcing the Government of Moldova (GOM) and donors to fund the expansion of the network. If MoldovaGaz can be re-valued by conducting a financial assessment and field inventory of assets, the GOM could take a controlling interest in the company based on the GOM's contribution to these new assets. Currently, MoldovaGaz is divided between Gazprom (51%), the GOM (34%), Transnistrian authorities (13%), and individual investors (1%). New Prime Minister Greceanii has expressed an interest in re-valuing MoldovaGaz.

COMMENT

¶5. (C) Gazprom and Russia appear to be honoring the 2006 agreement on gradual price increases for natural gas supplied to Moldova. We can expect quarterly and annual price adjustments according to the formula. MoldovaGaz and Gazprom continue to struggle with Transnistria, unable to reach an agreement on the debt or payment issues. Abashkin was

CHISINAU 00000427 002 OF 002

concerned about the changes in the Moldovan government, and worried that populist pre-election moves by the ruling Communist Party of Moldova could harm the economy. He also spoke about certain personality conflicts, alluding (we suspect) to local media reports that former Prime Minister Tarlev might be named President of MoldovaGaz. Abashkin has been a trusted source in the energy sector, giving us rare insight into Gazprom's dealings in Moldova.

KIRBY